MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019 SESSION

BAC1614 – FUNDAMENTALS OF FINANCIAL ACCOUNTING

(All Section / Groups)

15 MARCH 2019
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages excluding cover page with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

QUESTION 1

The following trial balance was extracted from the books of Axis Berhad as at 31 December 2018.

	Debit RM	Credit RM
Cash	38,000	
Account Receivable	36,800	
Notes Receivable	10,000	
Inventory, 1 Jan	46,100	
Insurance	4;200	
Land	100,000	
Buildings	250,000	
Equipment	60,000	
Patents	35,000	
Allowance for Doubtful Debt		300
Accumulated Depreciation - Buildings		49,000
Account Payable		38,500
Unearned Rent Revenue		6,000
Notes Payable (Due in 2019)		11,000
Notes Payable (Due after 2019)		55,000
Share Capital-Ordinary		100,000
Retained Earnings, 1 Jan		107,900
Dividends	24,000	
Sales		980,000
Returns	4,200	2,400
Carriage Inwards	3,800	
Purchases	542,000	
Salary and Wages Expense	110,000	
Utility expense	24,000	
Other operating Expenses	62,000	
	1,350,100	**1,350,100**

Additional Information:

1. The closing inventory as at 31 December 2018 was valued at RM44,600.
2. Axis Berhad estimates that uncollectible account receivable at year-end is RM4,000.

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3. Notes receivable is a one-year, 8% noted dated April 1, 2018. No interest has been recorded.
4. Depreciation is to be provided as follows:
    a) The building is being depreciated using the straight line method over 40 years. The residual value is 4% of cost.
    b) The equipment purchased on June 1, 2018 is being depreciated at 10% using the reducing balance method.
5. The patent was acquired on January 1, 2018 and has a useful life of 10 years from that date.
6. The unearned rent revenue of RM6,000 was received on December 1, 2018, for 4 months' rent.
7. Unpaid salaries and wages at December 31, 2018 total RM3,600.
8. Both the short-term and long term notes payable are dated January 1,2018 and carry a 8% interest rate. All interest is payable in the next 12 months.
9. A cash payment of repair expense on equipment for RM250 was recorded as a debit to utility expense RM250 and credit to cash RM250. This error has not been adjusted in the book of Axis Berhad.

Required:

a) Prepare the statement of profit or loss for the year ended 31 December 2018.

(13 marks)

b) Prepare the retained earnings statement for the year ended 31 December 2018.

(2 marks)

c) Prepare the statement of financial position as at 31 December 2018.

(10 marks)

Total 25 marks

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QUESTION 2

Part A

Presented here are selected transactions for the Foyle Trading during April. Foyle uses the periodic inventory system.

April	1	Sold merchandise to Darren Enterprise for RM4,000, terms 2/10, n/30. The merchandise sold had a cost of RM2,000.
	2	Purchased merchandise from Webb Berhad for RM6,000, terms 1/10, n/30.
	4	Purchased merchandise from Ryan Company for RM2,000, n/30.
	10	Received payment from Darren Enterprise for purchase of April 1 less appropriate discount.
	11	Paid Webb Berhad for April 2 purchase.

Required

Journalize the April transactions for Foyle Trading.

(6 marks)

Part B

Below is an analysis of the inventory, purchases and sales for the month of April 2018.

April	1	Inventory	24 units	@	RM10
	11	Purchase	26 units	@	RM12
	14	Sale	36 units	@	RM20
	21	Purchase	18 units	@	RM15
	25	Sale	20 units	@	RM25

Required

i) Under Average Cost Method, calculate the amount charged to cost of goods sold and inventory on hand on April 30, using both perpetual and periodic inventory system. (Round to 2 decimal places) (9 marks)

ii) What is the different between FOB (free on board) shipping point and FOB destination? (4 marks)

Continued...

Part C

Dillman Food Store developed the following information in recording its bank statement for the month of March.

Balance per books March 31	RM 2,905
Balance per bank statement March 31	RM10,900

(1) Checks written in March but still outstanding RM6,000.

(2) Checks written in February but still outstanding RM2,800.

(3) Deposits of March 30 and 31 not yet recorded by bank RM5,200.

(4) NSF check of customer returned by bank RM1,200.

(5) Check No. 210 for RM594 was correctly issued and paid by bank but incorrectly entered in the cash payments journal as payment on account for RM549.

(6) Bank service charge for March was RM50.

(7) A payment on account was incorrectly entered in the cash payments journal and posted to the accounts payable subsidiary ledger for RM824 when Check No. 318 was correctly prepared for RM284. The check cleared the bank in March.

(8) The bank collected a note receivable for the company for RM5,000 plus RM150 interest revenue.

Required:

Prepare the bank reconciliation statement at 31 March 2018

(6 marks)

Total 25 marks

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QUESTION 3

Part A

(i) Briefly explain what is the relation between prudence concept and allowance for doubtful account.

(2 marks)

(ii) Stated and briefly explain ONE different between direct write-off method and allowance method.

(2 marks)

(iii) Briefly explain the reason of why direct write-off method for bad debt is not allowed by financial accounting standard.

(2 marks)

b) The ACE. Inc uses the allowance method in accounting for uncollectible accounts. Past experience indicates that 0.5% of net credit sales will eventually be uncollectible. Selected account balances at December 31, 2017, and December 31, 2018, appear below:

	Dec 31, 2017	Dec 31, 2018
Net Credit Sales	RM 700,000	RM 600,000
Accounts Receivables	RM 60,000	RM 50,000
Allowances for Doubtful Accounts	RM 4,000	?

Below are the events that occurred in 2018

July 5	Determined that the account of Joy Inc. for RM2,000 is uncollectible.
Aug 15	Determined that the account of Yum Co. for RM1,000 is uncollectible.
Oct 20	Received a cheque for RM1,100 as payment on account from Joy Inc., whose account had previously been written off as uncollectible. He indicated the remainder of his account would be paid in December.
Dec 5	Received a cheque for remainder balance from Joy Inc. as payment on his account.

Required

(i) Show the journal entries for above transactions
(Narrative is not required)

(5 marks)

(ii) Prepare the adjusting journal entry to record the bad debt provision for the year ended December 31, 2018.

(2 marks)

(iii) Prepare the adjusting journal entry to record bad debt provision for the year if the estimation of uncollectible debt for next year is 10% from accounts receivable balance.

(4 marks)

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c) The Mohsin Beauty Clinic purchased a new surgical laser for RM65,000. The estimated salvage value is RM5,000. The laser has a useful life of four years and the clinic expects to use it 15,000 hours. It was used 3,800 hours in year 1; 4,200 hours in year 2; 3,400 hours in year 3; 3,600 hours in year 4.

Required

(i) Compute the annual depreciation for each of the four years under each of the following methods:

(1) straight-line.
(2) units-of-activity.

(5 marks)

(ii) Which method would result in the lowest reported income in the first year and which method would result in the lowest total reported income over the four-year period?

(3 marks)

[Total 25 marks]

QUESTION 4

a) Extract from the financial statement of Tesso Berhad for the years ended 31 December 2018 and 2019 are given below.

Income Statement	**2018**		**2019**	
	RM	RM	RM	RM
Sales revenue (including cash sales RM500,000 in 2018 and RM800,000 in 2019)		5,500,000		5,800,000
Cost of sales				
Opening inventory	420,000		580,000	
Purchases (all on credit)	3,260,000		2,940,000	
	3,680,000		3,520,000	
Less: Closing inventory	(580,000)	(3,100,000)	(620,000)	(2,900,000)
Gross profit		2,400,000		2,900,000
Expenses		(1,100,000)		(1,800,000)
Net profit		1,300,000		1,100,000

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Statement of Financial Position	2018		2019	
	RM	RM	RM	RM
Current assets				
Inventory	580,000		620,000	
Trade receivables	650,000		720,000	
Cash and cash equivalent	402,000	1,632,000	500,000	1,840,000
Current liabilities				
Trade payables	510,000		620,000	
Others payables	122,000	632,000	210,000	830,000

Required

(i) Calculate the following for each of the two years

1) Current ratio
2) Quick ratio (acid test)
3) Inventory turnover period in days (use closing inventory)
4) Average collection period (Day's collection in Trade receivables)
5) Net profit margin

For days use 365 days

(10 marks)

(ii) Provide five (5) brief comments on the changes in the position of the company as revealed by the changes in these ratios and/or in the given figures from the financial statement.

Conclude the comment by suggesting whether the company performance is improving or not.

(6 marks)

b) The Board of Directors of a listed company has authorizes the issuance of RM12,000,000 of 10%, five year bonds payable to finance its business expansion programme. The semiannual interest dates are April 30 and October 31. The bonds are issued on April 30, 2018 at par. The company year-end is December 31.

Required

Journalise the following transactions. Show all workings

(i) Issuance of half of the bonds on April 30, 2018

(2 marks)

(ii) Payment of interest on October 31,2018

(2 marks)

Continued...

(iii) Accrual of interest on December 31, 2018

(2 marks)

(iv) Payment of interest on April 30,2019

(3 marks)

[Total 25 marks]

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